EDMONDS CITY COUNCIL APPROVED MINUTES
March 22, 2012

The Edmonds City Council meeting was called to order at 6:00 p.m. by Mayor Earling in the Council Chambers, 250 5th Avenue North, Edmonds. The meeting was opened with the flag salute.

ELECTED OFFICIALS PRESENT

Dave Earling, Mayor
Strom Peterson, Council President
Frank Yamamoto, Councilmember
Joan Bloom, Councilmember
Adrienne Fraley-Monillas, Councilmember
Diane Buckshnis, Councilmember

ELECTED OFFICIALS ABSENT

Michael Plunkett, Councilmember
Lora Petso, Councilmember

STAFF PRESENT

Al Compaan, Police Chief
Gerry Gannon, Assistant Police Chief
Jim Lawless, Assistant Police Chief
Stephen Clifton, Community Services/Economic
 Development Director
Shawn Hunstock, Finance Director
Rob Chave, Planning Manager
Carl Nelson, CIO
Carolyn LaFave, Executive Assistant
Deb Sharp, Accountant
Sandy Chase, City Clerk
Jeannie Dines, Recorder

1. **APPROVAL OF AGENDA**

    COUNCILMEMBER BUCKSHNIS MOVED, SECONDED BY COUNCILMEMBER FRALEY, TO APPROVE THE AGENDA IN CONTENT AND ORDER. MOTION CARRIED UNANIMOUSLY.

2. **APPROVAL OF CONSENT AGENDA ITEMS**

    COUNCILMEMBER FRALEY-MONILLAS MOVED, SECONDED BY COUNCILMEMBER BUCKSHNIS, TO APPROVE THE CONSENT AGENDA. MOTION CARRIED UNANIMOUSLY. The agenda items approved are as follows:

    A. **ROLL CALL**

3. **AUDIENCE COMMENTS**

Al Rutledge, Edmonds, announced the Carol Rowe Memorial Food Bank's food drive at Top Foods on March 30-April 1 and April 4-6. Further information is available by calling 425-776-7130. He relayed that the food bank serves 350 families each week.

4. **BUDGETING BY PRIORITIES PRESENTATION**

Finance Director Shawn Hunstock explained the City is in the process of a strategic planning effort. The next steps in that process will be a retreat at the April 24 Council meeting and a community open house on May 3. Further information regarding the strategic planning process is available via the City's website, EdmondsWa.gov. One of the potential outcomes of the strategic planning effort will be the development of a number of community priorities.

Mr. Hunstock introduced Mike Bailey, Finance Director, City of Redmond, who will discuss the process used in Redmond for several years as well as by the State and other communities in Washington to allocate the city's resources to the community's priorities as developed through a strategic planning effort. That process is commonly known as Budgeting by Priorities. He described Mr. Bailey's background: he has worked in local government finance since 1980. His work experience includes serving as Finance Director for several cities including Lynnwood as well as a Park District in Washington. He is a former president of the Washington Finance Officers Association and a former member of the Government Finance Officers Association (GFOA) Executive Board. He has served on various GFOA committees and is the local government representative on the GFOA Streamline Sales Tax project governing board. Mr. Bailey earned his degree in business administration and MBA from the University of Puget Sound; he is a CPA and an executive education studies graduate of Harvard JFK's School of Government.

Mr. Bailey explained the Budgeting for Outcomes or Budgeting by Priorities model was made famous in Washington State in 2002 when then-Governor Locke embarked on a Price of Government approach to solve the State's budget problems. Much of that effort is chronicled in the book, "The Price of Government" by David Osborne and Peter Hutchinson. There are nearly 100 local governments in Washington that use this approach in many different ways. During his presentation he encouraged the Council to consider what made sense for Edmonds; what elements, if any, would Edmonds be interested in undertaking at first, what could be added later, etc.

Mr. Bailey referred to Edmonds' annual budget process, commenting to accomplish this every year would be overwhelming. The few governments that use this approach and budget annually choose certain parts to rotate every 2-3 years.

Mr. Bailey provided an overview of Budgeting for Outcomes (BFO):
1. Determine the "price of government"
2. Determine priorities
3. Assign a portion of the "price" to each priority
4. Determine best way to deliver results by priority
   a. Results Teams develop strategies/RFOs
   b. Program staff submits offers
   c. Results Teams rank/scale offers
5. Results budgeting is offers focused on strategies to accomplish priorities

Mr. Bailey explained the following priorities were originally determined based on input from citizens in focus groups and open meetings:
- Infrastructure
- Environment
- Community
- Safety
- Business
- Government
- Education (determined not to be the city's responsibility)

He reviewed a chronology of Redmond's Budgeting by Priorities (BP) process:
- City Council confirms priorities
- Results teams formed around each priority
  o Each team consists of four cross-departmental staff members and one citizen (mayoral appointment)
- Each Results Team develops a Request for Offers (RFO) to support its priority.

- Departments review RFOs and data and write offers that are submitted to Results Teams
- Results Teams rank offers and give feedback to departments
- Based on rankings and feedback, departments revise and resubmit offers
- Results Teams rank offers again, this time including mandates
- Results Teams makes recommendation to mayor
- Mayor uses Results Teams recommendations to develop a preliminary budget
- Mayor presents preliminary budget to City Council
- Council budget review process and adoption of final budget

He provided a general review of Redmond:
- Biennial budget with six year forecasts
- Process includes all funds, all operations, all capital
- Mayor used guidance team (kitchen cabinet) of community leaders in first cycle
- Project team comprised of Finance Director, Budget Manager and Deputy City Administrator
- Citizens on each Results Team

Mr. Bailey described how the "price of government" (POG) is developed in Redmond:
- All resources (eliminate the double counting)
- In context (Redmond uses total community personal income)
- Policy perspective
  - Still debate tax and rate changes but now in context of POG
  - Discussion now about the "price"
- Allows policy level balancing of the sources
  - Council can now choose

Mr. Bailey displayed a graph, explaining over ten years Redmond's POG was 5-6% of total personal income. He noted in the years beyond 2012, the graph is drifting below 5%, causing the Mayor to consider whether there are amenities needed to keep that at 5% and how to best spend dollars that could be raised via a mechanism that increased revenue and raised the POG to 5%.

Mr. Bailey displayed a graph comparing all revenues to taxes and fees, taxes only, property taxes, sales taxes and other taxes. He reviewed the community priorities:
- Business Community
  - I want a diverse and vibrant range of businesses and services in Redmond.
- Clean & Green Environment
  - I want to live, learn, work and play in a clean and green environment.
- Community Building
  - I want a sense of community and connections with others.
- Infrastructure & Growth
  - I want a well-maintained city whose transportation and other infrastructure keeps pace with growth.
- Safety
  - I want to be safe where I live, work and play.
- Responsible Government
  - I want a city government that is responsible and responsive to its resident and businesses

Mr. Bailey explained the community priorities were determined in 2008. In an effort to ensure those are still the priorities, for the 2011-2012 budget Redmond held a community meeting. For the 2013-2014 budget process, this budget question will be asked during existing neighborhood network meetings. The

priorities were also validated via questions in the citizen survey. In the 2011 survey, 88% of citizens confirmed the priorities.

Mr. Bailey described the process of assigning a portion of the price to each priority. He acknowledged it is an art form balancing past practice with intended emphasis. The first time was based on a combination of history and intended focus. The second round was informed by the experience in the first round as well. Redmond's recommendations for funding operations are:
- Infrastructure & Growth – 40%
- Responsible Government – 16%
- Safety – 27%
- Community Building – 5%
- Clean & Green – 7%
- Business Community – 5%

Mr. Bailey provided further details regarding the BP process:
- Results Teams for each priority develop maps illustrating how to achieve results
  - These form the recommended strategies
  - The Results Teams uses a variety of sources (including internal city expertise) to arrive at recommended strategies
- Results Maps (and RFOs) become the budget instructions for staff
  - The Results Maps get translated into a set of written guidelines to guide budget writers on offers
  - Example: "we are looking for offers that highlight community engagement."

Mr. Bailey displayed examples of Results Maps for Sense of Community Priority and Safety priorities. He continued his explanation of the BP process:
- Offers are proposals responding to RFO by program
  - Much like budget programs but should be zero based
- Results Team rank offers to achieve maximum results
  - A dialog between the offer writer and the Results Tam helps to assure each is understanding the other correctly
- Budget "buys" the best results through the ranked offers and stop guying when the "price" is met
  - Results Teams advise the mayor via their rankings of the offers and their comments about the merits

Mr. Bailey displayed an example of a ranked offer summary for Sense of Community priority and an example of a scalability summary. He described the benefits of BP:
- Real citizen engagement
  - Initial setting of priorities involved a lot of citizens
  - Citizens on Results Teams
- Public view
  - Transparent
  - Focuses debate on policies/programs (not costs)
  - Understandable (about priorities, not bureaucracy)

Mr. Bailey reviewed the value proposition:
- How can you demonstrate results from the resources you are given?
  - Performance measures are a required element of each budget offer
  - Measure should focus on results (or some element that contributes to the ultimate result)
  - Measure should focus on end customer (not process)
- Performance management is a system of measures that complement the BFO:

- o Developed 22 indicators – "dash board"
- o Dash board responds to priority level
- o Supported by budget offer measures
- o Supported by tactical measures
- Relationship between performance and budget
  - o Council seeks "scalability relationship
    - If I change resource in an offer what are the consequences?
  - o If performance isn't as expected/needed, what should change?
    - Informed by data/not an absolute

Mr. Bailey provided examples of BP accountability for the Safety priority. He commented on managing the politics:
- Council
  - o Should focus discussion on priorities, results maps (RFOs), offers and performance
  - o Difficult to connect offers to line items
  - o Public perception is positive
- Departments
  - o Less direct control by department directors
  - o More vulnerability in budget process

He commented on communications:
- External
  - o Citizen engagement isn't automatic
  - o Local media perception (complicated)
  - o Giving the Council "talking points"
- Internal
  - o Equipping your staff to be evangelists
  - o Email, all employee meetings, chain of command, consistent messages

Mr. Bailey described the capital investment strategy:
- Lessons learned – this approach didn't work well for capital
- During 2nd cycle, created 7th Results Team
  - o Made up of "long range planning division"
  - o Connected to Comprehensive Plan and vision
  - o Used filter of six community priorities
    - Passed capital requests through to Capital Team
    - Used their RFO and Priority RFO to evaluate
- Much better alignment for strategic decisions
  - o Focus on vision
  - o Resulted in interim capital Investment Strategy work

He described organizational learning:
- Across department lines
- Transparency (even in tough times
- Director's Role:
  - o Budget battle not about winning a bigger slice
  - o Directors as "first team"
  - o Directors "own" budget
- Senior Managers next
- Ten year plan for future development

Mr. Bailey explained after the first budget cycle where BP was used, GFOA was asked to look over the budget and identify any improvements. GFOA made several suggestions, among them creating a ten year plan for development. He noted some cities accept offers for some functions from outside organizations.

Mr. Bailey concluded there is a lot to this process including community engagement, priority focused, Results Teams, internal collaboration, allocation of resources by priority, performance measures, value proposition, etc. Some organizations do not take all of it on at once. He cautioned not to let the scope of the BP approach be overwhelming. There may be elements/pieces of the process that Edmonds may want to undertake initially.

During and following his presentation, Mr. Bailey responded to Council, staff and audience questions:
- *Are Councilmembers involved on Results Teams?* Councilmembers are not on Results Teams. Councilmembers have an opportunity to interact with Result Teams and hear presentations about RFO criteria.
- *What is the purpose of a citizen on the Results Team?* Results teams consider the question, how can the city as an organization have the most impact with respect to each priority, from the perspective of the community.
- *When do Councilmembers have an opportunity to weigh in?* It is the Mayor's budget until it is presented to the Council in October. The goal is for as collaborative a process as possible. Debrief from prior budget process, check-in with Councilmembers at priorities stage and Results Team stage, and mid-year. Work to keep Council familiar with what is happening, what issues are arising, etc.
- *How are mandatory things like police, jail, etc. handled?* Everything is subjected to the same process.
- *Are intergovernmental revenues included?* No. Grants from outside the government are included.
- *Why are citizens useful on Results Teams?* Staff members on the Results Team do not "own" programs in the priority; citizens have a more generic understanding.
- *Provide an example of a budget offer.* A budget offer is a budget proposal. Redmond's website contains all the offers.
- *How do you avoid Results Team members advocating for their own department?* You have to work at ensuring members are wearing their citizen hat and not their department hat. Different department representatives are included on Results Teams in each round to provide different perspectives.
- *Once Councilmembers read through data, are they more agreeable to working through offers?* This method gives a common basis for a conversation.
- *Regarding the option to accept offers from outside organizations, what happens with unions?* That is an organizational dynamic that may make it more viable in certain parts of the country.
- *Originally there was a lot of organizational angst in Redmond. Why and how did Redmond work though that?* New Mayor and new staff. There was concern with how BP would work and whether it would be better. The phrase "we are building this car as we're driving it down the driveway" was uttered often.
- *Did the BP process help pass a levy?* A public safety and parks maintenance levy failed the first time. The ask was reduced and the levy passed in 2007 which predates this work.
- *How much time did it take to lay the groundwork to implement the program and what was the cost?* It takes a certain level of organizational sophistication; the city must be able to do its finances in the traditional manner and translate it to BP. It is important to get community input regarding priorities. There are organizational issues associated with familiarizing staff with the process. Many organizations use an outside consultant but that is not required. He estimated internal organizational learning would take 3-4 months.

- *In the survey where 88% of citizens confirmed the priorities, how many residents were surveyed?* Approximately 400 which was the amount deemed by the consultant to be a statistically valid representation of the community.
- *Does the capital budget include roads?* Yes.
- *Were employees moved between departments in Redmond?* Yes, there was some reorganization and realignment of functions.
- *Were temporary employees used for one-time needs?* Yes.
- *Who allocates the price to the six priorities?* The Mayor with assistance from a guidance team.
- *What budget process was used prior to 2008?* Incremental budgeting, a percentage increase/decrease from last year's budget with adjustments.
- *Was that percentage the same for all departments?* No, the increment was adjusted by department.
- *Is 5% of personal income typical of other cities?* Yes.
- *Redmond has a biennial budget; are union negotiations also biennial?* Union negotiations are not necessarily in alignment with the budget cycles. There is a fair amount of estimating done.
- *What is the length of union agreements?* Typically 3 years.

Mayor Earling thanked Mr. Bailey for his presentation.

7.   ADJOURN

With no further business, the Council meeting was adjourned at 8:05 p.m.